

A STUDY ON THE RELATIONSHIP BETWEEN SECURITY AND PROSPERITY IN
PAKISTAN

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This thesis is dedicated to the memory of HM2 Christopher W. Thompson

“Never Above You...Never Below You...Always Beside You”

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ABSTRACT

Since 2014 Pakistan has reported improvements in their security and their economy. The aim of this study is to determine if those improvements are a result of counterterrorism policies implemented that same year, along with aggressive military operations. By utilizing a linear regression model, the hope was to identify a direct negative relationship between Pakistan's Market Potential Index scores from 2007-2014 and their reported fiscal loss due to terrorism during the same years. If a relationship exists between those two variables, then there is an opportunity to argue that Pakistan has improved their economic situation by reducing domestic terrorism within their borders. Other research on this topic only measures Pakistan's economic loss from acts of terrorism; there is no record of research gauging the effects of reported improvements. By studying the effects of a reduction in terrorist acts on the economic potential of Pakistan, the goal is to support increased security reform in Pakistan and international cooperation in their road to stability.

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CHAPTER I

INTRODUCTION

Recent Improvement in Pakistan's Economy and Security

In 2016 Pakistan's gross domestic product (GDP) is expected to increase from 4.2-4.5% and will be led by services, small-scale manufacturing and construction. In April of 2016 China announced plans to build an economic corridor between Kashgar, in the People's Republic of China, and the Pakistani port of Gwadar, which represents new opportunities for private investment and overall economic growth in South Asia (Asian Development Bank 2015). In the security sector Pakistan continues to face significant threats from the Tehrik-e-Taliban (TTP), but drastic improvements have occurred since implementing new counterterrorism (CT) strategies in 2014. For example, in November of 2015 a drone strike killed Khan Sayed, a senior member of the TTP who lead a breakaway faction of the group (Council on Foreign Relations 2016). As of August of last year the Pakistani military claimed to have killed over 3000 militants in a military offensive that began in 2014 across North Waziristan (Masood 2015). Progress in Pakistan is undeniable, but terrorist violence still plagues the Pakistani people. So far in 2016 Pakistan has experienced a bomb attack on a bus that killed 15, a suicide bomber outside a court that took the lives of another 17, and a TTP attack that killed 9 Paramilitary personnel (Council on Foreign Relations 2016). But for every setback new aggressive CT strategies and economic progress provide renewed hope for the future.

THEORETICAL FRAMEWORK

Omand (2010) in his book *Securing the State* describes his impression of Ambroglio Lorenzetti's great 14th century mural, the Allegory of Good and Bad Government. In his description, he states that:

Good government brings peace, stability and security, prosperity, and culture.

Cheerful townspeople and country folk are shown in the spring and summer, working in harmony and going freely about their affairs transporting their goods on well-kept roads or sowing in the weed-free fields. Builders are hard at work developing the city. The watchtowers are well kept and manned. Maidens dance in the street and the aristocracy, it may be seen, is shown blamelessly employed in the countryside in hunting and falconry whilst the business of city government is left to the hard-working merchants. Hovering overhead is Securitas, security, under whose wings all this is possible (Omand 2010).

Omand is obviously inspired by Lorenzetti's painting, perhaps as much by its beauty as the idea that security and prosperity can exist together. The aim of this study is to provide support for that idea, that security and prosperity are symbiotic and interdependent. The thesis is that a direct relationship exists between the growing economic status of Pakistan and their efforts to reduce the amount of terrorist activity in their country. The null hypothesis is that no significant relationship exists between those two variables. The time frame of 2007-2014 was chosen to study that relationship with 2014 being the most eventful of those years because of the implementation of new CT policies in Pakistan.

OUTLINE OF THE CHAPTERS – THESIS PLAN

The first chapter is an introduction to the topic and explains the beginnings of terrorism in Pakistan, which are the root of Pakistan's security concerns. Chapter two is the literature review on relevant literature covering the topic of security and prosperity in Pakistan. Chapter three covers the research design and methodology, and both are described along with data supporting the theory. Chapter four describes the results of the research. Chapter five is the conclusion of this thesis and all recommendations for future policy changes are presented.

THE HISTORY OF TERRORISM IN PAKISTAN

Wahhabism, Domestic Terrorists, and the Pakistan-India Proxy War

Pakistan's political instability, civil unrest, corruption, and domestic terrorism have contributed to the economic struggle within the country since 1947, when they gained independence. Of all those factors, it is the violent means of Islamic militants that operate in Pakistan which garner the most attention. The possibility that Pakistan's security and the growth of their economic potential are related calls for the idea be explored. How is a nation, ostensibly established for the purpose of religious tolerance, and as a safe-haven for Muslims, so torn by intolerance and sectarianism? Are the economic highs and lows that Pakistan has endured since gaining independence a byproduct of political instability caused by internal conflict?

A theory exists that the overarching influence for extremist views in all of South Asia stem from the Wahhabi government of Saudi Arabia. The Saudi Arabian government enforces very strict Islamic laws within their borders, and charges anyone who speaks out against the government with apostasy. The punishment for this crime ranges from floggings, to unfair prison sentences, or even death. Saudi Arabia has also been accused of funding Sunni terrorist organizations through third party charities (Carpenter 2001). Many of these groups train, live, and operate in both Pakistan and Afghanistan.

The beginnings of Saudi Arabian influence in South Asia can be traced back to the 1970's with the resurgence of Islamic religious schools known as madrassas. Countries such as Iran and Pakistan utilized these religious schools to spread Islamist political ideals and provide alternatives to secular schools, which, prior to that point, didn't exist in much of South Asia. In the 1980's financial support for these Islamic schools started to come from Europe, the United States, Saudi Arabia, and other states in the Persian Gulf (Blanchard 2008). These countries provided funding to various madrassas so they would serve as recruiting depots for anti-Soviet fighters known as the mujahedin. During that time General Muhammad Zia ul-Haq , who overthrew the Pakistani government by force in 1977, used those funds to increase the number of madrassas from 900 to over 33,000, by the end of his reign in 1988 (Murphy 2014). It is from this pool of students, who were taught in Islamic schools funded by the Western World and the Persian Gulf states, that the Taliban was born. The Taliban, literally meaning "student" in Arabic, were Islamic clerics and students groomed in Afghan madrassas and taught a form of Islam very similar to the Wahhabism practiced in Saudi Arabia (Blanchard 2008).

The spread of terrorist organizations in Pakistan and Afghanistan is not limited to Saudi Arabian Wahhabi influences or even Islamic extremism. Groups with anti-Indian objectives such as the Jamaat-ud-Dawa, formerly known as the Lashkar-e-Tayyaba, and the Haqqani Network have been residing in Pakistan since they began. Many of these organizations have been intentionally kept off of Pakistan's list of organizations and have even received clemency when the Pakistani military conducted operations in the North Waziristan agency and the Federally Administered Tribal Areas (FATA) (Laub 2013). Indeed, Pakistan has chosen to condemn certain terrorist groups while condoning others who support their anti-Indian agenda. Because of Pakistan's indiscretion, other terrorist factions have developed within their own borders that have only one purpose, to oust the Pakistani government.

A Problem Pakistan Can't Ignore

Taliban sympathizers and allies existed throughout the Pakistan-Afghan borders before 2001, but were not networked in any way, and certainly did not identify themselves as "Taliban." Shortly after the American military campaign began in Afghanistan in 2001 many of these sympathizers began joining together. While the Pakistani Army was conducting operations in search of foreigners linked to Al-Qaeda, these sympathizers began attacking military and government establishments in an attempt to draw the Pakistani government to the negotiating table. They also attacked and killed over 200 tribal elders in the FATA, thus destroying the tribal Jirga institutions and giving themselves legitimate control by default in those regions (Abbas 2008).

However, it wasn't until December 2007 that these small militant groups officially fused together under the leadership of Baitullah Mehsud, a wanted man from South Waziristan and known militant leader (Abbas 2008). This organization went by the name of the Tehreek-e-Taliban (TTP) and since their inception they have voiced their objectives as follows:

1. Enforce Shari'a, unite against NATO forces in Afghanistan and perform "defensive jihad against the Pakistan army."
2. React strongly if military operations are not stopped in the Swat District and North Waziristan Agency.
3. Demand the abolishment of all military checkpoints in the FATA area.
4. Demand the release of Lal Masjid (Red Mosque) Imam Abdul Aziz.
5. Refuse future peace deals with the government of Pakistan.

(Abbas 2008)

There is obviously no room for the Pakistani government to work with the TTP to establish a peaceful resolution. Not only does the TTP stand in principle against the government, but they've also had an apparent impact on the government's stability. For example, they've been accused of alleged involvement in the assassination of Pakistan's former Prime Minister Benazir Bhutto on December 27, 2007. While a TTP spokesman denied the allegations, the government claims they have a transcript of a telephone conversation between Mehsud and several of his associates that proved his involvement (Abbas 2008).

The TTP in the FATA and Northern and Southern Waziristan are not the only threat to the Pakistani government by domestic insurgents. The Balochistan Liberation Army (BLA), the Balochistan Liberation Front (BLF), and the Baloch Republican Army (BRA) are ethnonationalist militant organizations that strive for greater regional autonomy in the province of Balochistan. Unlike the Taliban or Haqqani Network, these organizations are not concerned with religious ideals, and they place ethnicity over religious identity. In 2009, a cease-fire was declared between all three groups and the Pakistani Army as negotiations for peace began. When the BLA, BLF, and the BRA grew frustrated with Pakistan's lack of effort, the alleged leader of the BLA, Brahamdagh Khan Bugti, made a public request during a televised interview for all Balochi people to kill any non-native Balochi living in Balochistan. It is estimated that as many as 500 Punjabis were murdered immediately after the interview as a direct result of Bugti's request (Stanford University 2013).

Pakistan Intelligence Services claim that India provides arms, funding, and training for Balochistan militant groups in retaliation for the support Pakistan provides for anti-Indian terrorist organizations (Stanford University 2013). Regardless of who is providing support for the BLA, BLF, and the BRA, they serve as examples of how Pakistan's instability has allowed violent militant groups to gain power in their localities and suppress the government's ability to provide economic support and protection for Pakistani citizens. It is the effect of the instability created by these militants that serves as the point of study for this thesis.

There are currently five categories of Islamist Militant groups operating in and around Pakistan that presumably affect Pakistan's security and economy (Kronstadt 2013). These five categories are:

1. Globally oriented militants such as Al Qaeda.
2. India and Kashmir oriented militants like the Lashkar-e-Taiba, Jamaat-ud-Dawa, the Jaish-e-Mohammed, Jamiat ul-Ansar. These organizations are alleged to be receiving support from the Pakistani government.
3. Afghanistan oriented militants including the Quetta Shura Taliban, or the Afghan Taliban, whose headquarters are rumored to be in Quetta, Baluchistan and Karachi. The Haqqani Network, which is based in North Waziristan and Kurram also fall into this category.
4. Sectarian militants who have anti-Shia agendas include groups such as the Sipah-e-Sahaba Pakistan and its smaller branch, the Lashkar-e-Jhangvi whom is closely associated with Al Qaeda.
5. Domestically oriented groups like the TTP who are largely composed of Pashtun militants who have anti-Pakistani government motives.

(Kronstadt 2013)

Not only do the terrorists in Pakistan have strength in numbers but in diversity as well.

While some groups support each other's efforts others do not. Their agendas may be different but their impact on the Pakistani people is the same. No matter the name, founding principles, ethnic background, or religion, they bring repression and destruction wherever they go.

THE TURNAROUND POINT

The Attack in Peshawar

With such a long history of internal conflict, it's easy to forget that Pakistan's Army, and Police Force, have been working to build order and security for many years. However, the momentum was never in their favor. Then on December 16, 2014, a terrorist attack occurred that has since been called "Pakistan's 9/11". Nine members of the TTP conducted an eight-hour assault on an Army public school in Peshawar that killed 145 people, 132 of them students. A TTP spokesman said the attack was in retaliation for Army operations in the North Waziristan region that aimed to rid the TTP from that area. That day, the actions of the TTP that day were so horrific they were even condemned by other militant organizations such as the Afghan Taliban (Walsh 2014). This single event was a turning point for the Pakistani government in their dealings with militant groups.

Utilizing terrorist groups to conduct a proxy war against India was dangerous business. The TTP had proven to the Pakistani government that there could be no safe haven for any militant Islamic groups if Pakistan is to ever achieve peace for its people. The Pakistani government pledged to rid Pakistan of all militant organizations, even those they had provided refuge for in the past. The government met days after the attack and discussed their options and more importantly took ownership of their responsibilities. Aggressive security policies, and the military operations that followed this event, not only improved Pakistan's security but might have boosted their economy as well.

The 20-point National Action Plan

On December 25, 2014 Prime Minister Nawaz Sharif announced his party's response to the attack on the Army run school in Peshawar, the 20-point National Action Plan (NAP) (International Crisis Group 271). This new security policy promised to create avenues for Pakistan's Military and criminal justice system to deny funding for terrorism, cease extremist propaganda and speeches, return thousands of Afghans back to their homes who fled to Pakistan during the U.S. invasion, and wipe out militant organizations throughout Pakistan without bias (International Crisis Group 271). This aggressive approach followed two less assertive policies, the 64-point National Internal Security Policy (NISP), and the Protection of Pakistan Act (PPA), both signed into effect earlier in 2014 (International Crisis Group 271). The government promised this new policy would make gains where the others fell short.

A third CT policy in one year may have appeared redundant, but in conjunction with an effective military campaign, it signified a continuing unified effort by the Pakistani government to improve domestic security, protect its citizens, and its resources. Also in 2014, Pakistan's annual report on fiscal loss due to terrorism revealed the most significant improvements in the categories of foreign investments and loss from "the cost of uncertainty" in over 5 years (Ministry of Finance, Pakistan 2014-2015). Some of these improvements may have been assisted by renewed investor confidence after effective CT operations occurred throughout that year, along with the perception that Pakistan was taking control of its future, which was clearly presented by the initiatives within the 20-point NAP.

Many of the objectives stated in the 20-point NAP were recycled from previous attempts at instituting effective CT legislation. The renewed vow to execute older failed policies, coupled with new aggressive strategies, is what made this new CT policy seem more relevant and hopeful than others. The policies set forth by the 20-point NAP are listed below:

1. An end to the moratorium on death penalties for all those convicted of terror related cases.
2. The Formation of special trial courts led by military officers to include amendments in the Constitution creating paths that will allow terrorists to be tried in these special courts.
3. A ban on all armed or militant groups in the country, they will have no place and no permission to form a group of that nature.
4. The activation of an anti-terrorism institution, National Counterterrorism Authority (NACTA) to end terrorism.
5. Strict action against the culprits involved in spreading extremism, or sectarian and terrorist violence to include literature such as newspapers or magazines.
6. Blocking all financial and media routes that are supporting terrorism
7. Outlawed organizations would not be allowed to continue working, even under new names.
8. The formation of a special anti-terrorism force in Pakistan
9. Taking effective steps against religious persecution and protecting minorities
10. Requiring all madrassas in Pakistan to register with the government and a review of all laws and regulations pertaining to madrassas will be made.

11. Ban on print and electronic media sources advertising terrorism
 12. Administrative and development reforms in FATA for the purpose of returning IDP's back home
 13. The communication systems of banned terrorist outfits will be destroyed completely.
 14. Special security measures will be taken to seal the internet and social media sources that empower terrorism
 15. Terrorism will not be tolerated in the Punjab province.
 16. Karachi operations will continue until a satisfactory result has been achieved, antiterrorism solutions will be finalized to counter terrorism in any part of Pakistan especially in the Punjab province.
 17. Special authorities given to the Balochistan government to endow political reconciliations in the province.
 18. Decisive action taken against terrorism
 19. Development of a comprehensive policy to deal with Afghan refugees beginning with the registration of all refugees.
 20. The provinces will be given special intelligence access to stop terrorism while special reformations will be made in the criminal justice system.
- (Khan 2015) (National Counterterrorism Authority Pakistan 2016)

Events leading up to the Attack in Peshawar

North Waziristan and the seven districts, or agencies, of the FATA have historically been an asylum for militants avoiding persecution by NATO or Pakistan. The rugged terrain makes ground combat operations by large military forces difficult, and the tribal culture of the region provides a favorable environment for militants to blend in with locals. Previous military campaigns by Pakistan's Army focused on South Waziristan, where the terrain and environment were more hospitable. Even when militants would flee to North Waziristan in response to military pressure, Pakistan's Army refused to pursue them. In 2009, the Chief of Army Staff, General Ashfaq Pervez Kayani, was urged by the international community to focus his efforts in North Waziristan where terrorists were fleeing from targeted operations. His response was "that Pakistan will undertake operations in North Waziristan when we want to... We will undertake such an operation when it is in our national interest militarily" (Zahid 2015). Later that same year, because of the Army's haphazard counterinsurgency tactics, the TTP set their sights on capturing the Swat Valley, one of Pakistan's most well-known tourist attractions (Rashid 2012).

Since 2006 the number of TTP members in the Swat Valley increase steadily and in 2008, over the course of a year, the TTP destroyed over one hundred public buildings in the valley, many of which were schools for girls. As a result of TTP occupation over 2 million people who resided in Swat Valley were forced to leave their homes. In 2009, the provincial government signed a deal with the TTP that allowed them to impose sharia law in the courts of Swat. Many Pakistanis saw this as a victory for the TTP, and within several days thousands of new members arrived and took over police stations, schools, and other public buildings, which was not a part of the agreement (Rashid 2012).

As the influence of the TTP grew in Swat Valley, Americans became more concerned they might be capable of overthrowing the government and gaining access to Pakistan's nuclear stockpile. In April of 2009 the TTP began moving into districts outside of Swat Valley, thus spreading their influence. Only then did Pakistan's politicians finally began to address the issue they had been denying for so long. In late April, Pakistan's Parliament passed a resolution that endorsed military intervention, and on May 7 the Pakistani Army launched a massive air and ground offensive effort to take back Swat Valley. 30,000 troops moved into the valley while the UN and other aid agencies provided humanitarian care for those residents who were forced to evacuate to escape the violence (Rashid 2012).

By June most of the TTP had been pushed from the valley, although the more prominent leaders had escaped to the FATA districts and into Afghanistan. In all, 300 soldiers had died and 2,000 militants were killed. Millions of people had been forced to leave their homes but were now free to return safely. The security in Swat had improved, but the country, as a whole, was still beleaguered by violent militant groups (Rashid 2012).

In January of 2014, the Pakistani government attempted to negotiate with several terrorist organizations of the FATA and North Waziristan. During the negotiations, attacks by militants on government and civilian installations continued. One very audacious attack on the Jinnah International Airport demanded a response by Pakistan's officials. A military offensive began on June 15, 2014 throughout the North Waziristan Agency and a region of the FATA close to the Afghanistan-Pakistan border. 30,000 – 60,000 soldiers were deployed to North Waziristan in support of the operation. Their mission was to eliminate all terrorists who used that region as a safe haven without bias (Bodirsky 2015).

This operation, known as Operation Zarb-e-Azb, meaning “strike of the sword of the Holy Prophet” (Javaid 2015), was the most aggressive military intervention Pakistan’s Army had conducted against militants to date. The operation had four clear objectives.

1. Degrade the terrorist network by reducing their numbers, integrity, organizational command, and infrastructure. Destroy the umbrella of the TTP through their logistics, intelligence and financial systems.
2. Remove their assets that protect them from drones and destroy all factories, caves, explosives, training sites, and hideouts. Remove and detain all militant arms.
3. Regain control of territory held by militants
4. Coordinate efforts with the U.S. to utilize drone strikes on the most difficult targets.

(Javaid 2015)

In October 2014, the military was clearing militant strongholds in the Khyber Agency when support for CT operations began to waver. Then, the attack on the Peshawar Army-run School occurred and the TTP took credit for the assault (Zahid 2015). This tragedy renewed Pakistan’s commitment and the operational tempo in North Waziristan sped up as terrorists were driven from Pakistan’s borders. As of December of 2015, Pakistan’s Inter Services Public Relations division reported that 3400 terrorists had been killed, 837 terrorist hideouts destroyed, 21,193 arrests had been made, and 18,087 weapons, with 253 tons of explosives, were recovered during Operation Zarb-e-Azb (ISPR, Pakistan 2015) (Zahid 2015). Perhaps what is most impressive about this operation is that 9,000 intelligence-based operations (IBO) were conducted indicating intelligence assets were being used effectively (Zahid 2015).

Operation Zarb-e-Azb in conjunction with the 20-point NAP was two of the most significant security measures implemented in the history of Pakistan. In addition to the effectiveness of military operations, were revisions to the court system that allowed for more effective prosecutions of those accused of terrorism. The 20-pt NAP also deters and restricts speech or literature that spreads hate or condones violence. Restricting the freedom of speech in Pakistan may seem repressive. However, in a country where lack of education and low literacy rates make many citizens easy to influence, it is necessary. 2014 was a pivotal year for Pakistan and the changes incurred since then are the primary inspiration for this study. In the years preceding Operation Zarb-e-Azb and the 20-point NAP CT strategies were less aggressive and the Pakistani Army was noticeably less committed. The years of data analyzed were selected to show how the more effective CT strategies of 2014 possibly created new economic growth along with a reduction in acts of terrorism.

CHAPTER II

LITERATURE REVIEW

Practical Concerns Motivating This Study

The following literature review is a compilation of government reports and scholarly research which support the argument that a correlation exists between Pakistan's economic recovery since 2014 and their current counterterrorism strategy. This research furthers this theory by providing evidence of the relationship between security and prosperity in Pakistan from different perspectives. For example, research by Estrada, Park, Kim, and Khan describe the cost of terrorism as extending beyond the direct loss. They argue the cost of preventing attacks and recovery after an attack has an effect on the short-term and long-term economic growth in Pakistan (Estrada, et al. 2015). It can be assumed, if their theory were true, a reduction in terrorist events would positively influence Pakistan's economic growth. Unfortunately, many government agencies, such as Pakistan's Ministry of Finance (MoF), only report on actual fiscal loss after terrorist's events occur. This type of one-dimensional reporting only serves to garner support for financial aid from the international community; it does nothing to help guide future security policy.

Since the U.S. invaded Afghanistan much of the dialogue between the U.S. and Pakistan has focused on Pakistan's inability to secure their side of the Afghanistan-Pakistan border. Pakistan has made attempts to gain control of that region before 2014, but have not been able to sustain it at any rate. The literature collected and analyzed for this study supports the need for aggressive action and provides evidence that any type of intervention may provide reprieve, even if only temporarily, from Pakistan's economic hardship. The following literature review is divided into two sections: significance of the problem and historical methods of research. The objective of this review is to support the theory that Pakistan's recent economic recovery may have been assisted by the aggressive CT strategies they implemented in 2014.

Parameters of the Review

Research that is specific to Pakistan's economic and terrorist issues has been reviewed along with research on the same issue as it pertains to the global market. The relationship between security and prosperity is the point of contention and only literature that examines that relationship will be discussed. Reviewing literature that relates the economic and security issues of Pakistan to similar situations across the globe provides further support for the theory that Pakistan's increased security has possibly increased their prosperity. The literature was screened from sources such as academic papers, government reports, professional journals, credible websites, and periodicals. The findings included from these sources serves as a representative sampling of existing information. All accessible resources have been utilized to collect data for this research, but there does surely exist information on this topic that is not readily available to the public.

The Significance of the Problem

As previously stated, the aim of this study is to provide an argument that the CT strategies of Pakistan since 2014 have played a role in their economic recovery. Support for that argument stem from sources such as the *Relationship Between FDI, Terrorism and Economic Growth in Pakistan: Pre and Post 9/11 Analysis* by Shahzad, Zakaria, Rehmen, Ahmed, and Fida. Their study explores the interdependency of terrorism on two macroeconomic variables, economic growth and foreign investment. They conclude that terrorism does have a negative impact on foreign direct investment (FDI) in Pakistan after 9/11. Subsequently, a reduction in FDI impacts the economic growth of Pakistan negatively. Unfortunately, they do not provide policy recommendations for reducing terrorism in Pakistan, but their conclusions strengthen the argument that reducing terrorist acts will help stimulate FDI, which could increase economic growth and potential.

Another source, *The Economic Impact of Terrorism: A New Model and its Application to Pakistan* by Estrada, Park, Kim, and Khan, suggest that because the financial burden of terrorism can be so great, alternatives to combating terrorist in Pakistan should be discussed. Utilizing a new evaluation model to assess the cost of combating terrorism vs. the actual economic insult produced by terrorist acts, they build the argument that the cost of preventing terrorism, or negotiating with terrorists, is more cost efficient than ineffective security strategies that allow terrorist to achieve their goals (Estrada, et al. 2015). Peace talks with militant organizations such as the TTP and the Afghan Taliban may be spurred by this comparison. In certain situations it may be smarter to negotiate with terrorists than combat them.

Hassan and Hashmi make statements that support this argument in their study called *Terrorism and the Response of Investors at Capital Market: A Case of Pakistan* by showing a possible correlation between significant terrorist attacks in Pakistan and drops in the Karachi Stock Exchange (KSE). The capital market is often thought of as an indicator of economic growth, and a significant impact to the KSE could affect Pakistan's short-term and long-term economic growth, thereby disrupting their economic potential (Hassan and Hashmi 2015). Eliminating terror attacks by any method may help reduce economic stagnation. Even a temporary pause in domestic conflict could help spur economic recovery. Hyder, Akram, and Padda come to a similar conclusion in their study *Impact of Terrorism on Economic Development of Pakistan*, and estimate that a "one percent increase in terrorist incidents [results] in reducing the per capita GDP growth by .39 percent" (Hyder, Akram and Padda 2015).

Pakistan estimates their total economic loss from terrorism, between 2001-2015, to be as much as 106.98 billion (Ministry of Finance, Pakistan 2014-2015). That estimate doesn't account for what they spend on increased security measures to prevent terrorist attacks, which Estrada, Park, Kim, and Khan account for in their model. Hyder, Akram, and Padda also estimate that the only economically limiting factor that is more significant for Pakistan than terrorism is their out of control population growth, which was at 199,085,847 in July of 2015 (Central Intelligence Agency 2016, Estrada, et al. 2015). The research described above makes a persuasive argument that terrorism does affect Pakistan's short and long-term economic stability, which one could assume based on this research, would improve if terrorist acts were reduced.

Historical Methods of Research

There are two traditional methods for measuring the economic instability caused by terrorism in Pakistan. The first, is to account for the damage caused by terrorist acts such as damage to the infrastructure, payments to victims, or delays in importing or exporting. The second method is to predict what damage has been done to Pakistan's economic growth, or economic potential, from terrorism in conjunction with actual fiscal loss incurred. This method appraises loss from terrorism based on reductions in investor confidence, impact on the stock exchange, and predicted damage to the gross domestic product (GDP).

Mamoon, Akhtar, and Hissam estimate that a single terrorist attack in Pakistan costs as much as \$12 million dollars in exportation costs because of delays in exporting, investors refusing to travel to Pakistan, and the denial of visas to Pakistani business travelers (Mamoon, Akhtar and Hissam 2011). Their study titled, *Daily and Monthly Costs of Terrorism on Pakistani Imports*, follows the first method of measurement by looking at the immediate and short-term cost of a terrorist attack. This view does support the argument that a reduction in terrorist events in Pakistan might improve their economic potential but their study does not specifically discuss that topic. They provide a great resource for measuring the impact terrorism has on Pakistan's economy, but in no way make predictions for what Pakistan's future may hold and make no recommendations for future security reform. The point of my study is to use the information gathered from the research to predict what effect future CT reforms will have on Pakistan's economy and recommend future security policies based on that data.

Farooq and Kahn also measure the direct losses, in both financial and human capital, in *Impact of Terrorism on Foreign Direct Investment and Key Indicators of Development in Pakistan*. They provide ample evidence of economic highs and lows after the American invasion of Afghanistan and peak years of terrorist attacks in Pakistan. According to Farooq and Khan tourism has always been a major source of revenue in Pakistan, especially in Swat Valley, but domestic militant groups have discouraged travelers from visiting. The impact terrorism has had on specific markets in Pakistan is not often discussed, and in 2002 tourism reached a low point. Farooq and Khan point out that timeframe coincides with the American invasion of Afghanistan and an increase in terrorist acts in the region (Farooq and Zahoor 2014). Surely if security could be assured in Swat Valley, and other tourist destinations in Pakistan, then tourism would return along with its contribution to economic growth.

In contrast, Crain and Crain follow a different research method in *Terrorized Economies*, which is closer to mine. They predict what the gains will be for various countries across the world if terrorist incidents are reduced inside their borders. Crain and Crain agree that the relationship between security and prosperity is quite real and in their words, “the potential gains to a country from reducing terrorism are quite large, although the specific estimates depend on a country’s population, base level of output, and investment” (Crain and Crain 2006). While Pakistan is not the focus of Crain and Crain’s research, their findings are still very relevant to Pakistan; whose population is rapidly expanding and has a long history of domestic violence from militant organizations.

It is this type of research that validates large expenditures on security measures and ample amounts of time developing policies that eliminate militant organizations. The CT strategies Pakistan implemented in 2014 provide a unique opportunity to study how increased security affects economic potential. Previous research only speculates at what economic improvements might occur if Pakistan reduced domestic terrorism. This research attempts to actually investigate that relationship, as it exists today.

CHAPTER III

RESEARCH DESIGN AND METHODOLOGY

INTRODUCTION TO THE PROBLEM

Explanation of theory

In theory, the relationship between a nation's security and prosperity is directly correlated; increased security should result in increased prosperity. In an attempt to validate that relationship data was collected, analyzed, and evaluated to determine if the evidence available could substantiate that claim. Pakistan was chosen as the subject of study and the relationship between two variables, one representing security and the other prosperity, were examined to determine if that theory holds true for those specific variables. The thesis statement is: there is a direct relationship between the Market Potential Index scores of Pakistan from 2007-2014 and the fiscal losses reported by the Pakistani government attributed to domestic terrorism during those same years. The Null hypothesis is that no statistically significant relationship exists between the Pakistani MPI scores from 2007-2014 and the losses reported by the government during that time frame. 2014 is the year that Pakistan implemented their most aggressive CT strategies. Therefore, this is where the greatest changes occur in the data and is the focus of the analysis. Presenting 6 years of preceding data for the variables gives more weight to the argument that the CT policy changes, which occurred in 2014, had an effect on the variables.

Relevance of This Study

After 9/11 Pakistan, because of their geographic location, quickly emerged as a pseudo ally of the United States against the Taliban and Al-Qaeda. Unfortunately, beginning shortly after the invasion, Pakistan are believed to have provided refuge for terrorist organizations whose agenda matched that of Pakistan's regional goals, regardless of their involvement in attacks against NATO forces (Laub 2013).

After years of corruption, possibly misleading their western allies, and an inability to provide security within their own borders, Pakistan's economy has quite possibly stagnated as a result. Pakistan's position on CT strategies changed on December 16, 2014 when a militant Islamic organization known as the Tehreek-e-Taliban (TTP) attacked an Army-run school in Peshawar (Walsh 2014). This single horrific event forced the Pakistani government into action. One week after the attack in Peshawar the Pakistan Muslim League (PML) announced the 20-point National Action Plan (20-pt NAP), Pakistan's new CT strategy.

Since the announcement of the 20-pt NAP Pakistan has seen renewed interest from foreign investors and restored security, to some extent, for its citizens. The link between prosperity and security is seemingly obvious, undeniable, and inseparable. Domestic terrorism costs Pakistan billions of dollars annually and possibly has direct and indirect impacts on the growth of Pakistan's economy and employment opportunities.

The economic recovery and increased market potential of Pakistan may serve as a model for rebuilding and restructuring other war-torn nations who have been plagued by corrupt governments and terrorist occupations. For example, as a result of renewed confidence in Pakistan, China has pledged \$46 billion in financial assistance for developing trade routes and other various infrastructure projects that will shape Pakistan into China's future trade corridor to the Arabian Sea (Shah and Page 2015). The same economic potential lies in other countries such as Iraq and Nigeria. With continued counterterrorism and intelligence community (IC) efforts, humanitarian aid, and assistance rebuilding and restructuring, they may also prove to be economically valuable to the United States and the rest of the world.

Research Design

This study follows a descriptive quantitative research design that establishes a relationship between two variables. The experiment does not prove causality, only correlation. The research supporting the thesis only argues for causality, it does not prove it.

Methods of Obtaining Data

The research collection for this study followed a historical design format. All documentation has been collected from authentic and valid sources for the purpose of defending the thesis. Since all the data utilized only presents established facts from the past, the act of research does not affect the results of the study. Because historical documentation is subject to the bias of the author, and it is rare that any record of historical events covers all of the information needed for interpretation, there will be gaps in the research that must be acknowledged (USC Libraries 2016).

EXPLANATION OF THE DATA

Explanation of the Market Potential Index Score

The Market Potential Index (MPI) is a subjective rating based on eight economic dimensions chosen to represent the market potential of a country. These dimensions are measured using different market indicators, then assigned a weight according to their significance. Measurements and weights are then calculated to establish a total MPI score. Michigan State University's Broad College of Business, also known as globalEDGE, designed the MPI to assist American investors who wish to expand their markets internationally. There are 87 different countries that have been ranked according to their economic potential on a scale of 1 to 100. (Broad College of Business 2014). The dimensions and indicators used to calculate the MPI are listed in Table 3-1.

Pakistan's Ministry of Finance *Overview of the Economy*

The Pakistani Ministry of Finance (MoF) disseminates a yearly estimate of Pakistan's annual economic losses resulting from domestic terrorist occupation and attacks. This addendum to the yearly *Overview of the Economy* report provides a detailed account of fiscal losses by category and an estimation of total losses suffered. For the purpose of this study, it also represents the effectiveness of each year's CT strategies. All relevant "ministries, departments, provincial governments, and autonomous bodies" are consulted to build an accurate annual estimate of financial loss in Pakistan resulting from terrorism. The categories of financial loss used in this data include damage from both direct and indirect loss (Ministry of Finance, Pakistan 2014-2015). Table 3-2 lists these categories and corresponding fiscal losses for 2010-2014 as per the Pakistani MoF.

Table 3-1 the Market Potential Index

Dimensions and Measures of Market Potential for 2014

Dimension	Weight	Measures Used (indicators)
Market Size	25/100	Electricity Consumption Urban Population
Market Intensity	15/100	GNI per Capita Estimates Using purchasing power parity Private Consumption as a percentage of GDP
Market Growth Rate	12.5/100	Average Annual Growth Rate of Primary Energy Use Real GDP Growth Rate
Market Consumption Capacity	12.5/100	Consumer Expenditure Income Share of Middle-Class
Commercial Infrastructure	10/100	Cellular Mobile Subscribers Households with Internet Access Main Telephone Lines Number of PC's Paved Road Density Population per Retail Outlet Percentage of Households with Color TV
Market Receptivity	10/100	Per Capita Imports from US Trade as a Percentage of GDP
Economic Freedom	7.5/100	Economic Freedom Index Political Freedom Index
Country Risk	7.5/100	Business Risk Rating Country Risk Rating Political Risk Rating

Data used are those available for the most recent year

Source: Broad College of Business. 2014. *Market Potential Index (MPI) - 2014*. May 1. Accessed Nov 15, 2015. <http://globaledge.msu.edu/mpi/2014>.

Table 3-2 Summary of Losses Due to Terrorist Attacks in \$US billions

	2010	2011	2012	2013	2014
Exports	2.90	1.237	.730	.3231	0.73
Compensation to those Affected	.80	.02428	.0296	.0139	0.01
Physical Infrastructure	1.72	1.266	.7669	.4374	0.5
Foreign Investment	2.10	4.597	.210	3.260	0.09
Privatization	1.10	.277	4.719	0	0
Industrial Output	1.70	.33169	.3085	.1296	0.02
Tax Collection	2.10	2.431	2.315	1.732	2
Cost of Uncertainty	2.90	.12183	.0503	.0326	0.002
Expenditure Overrun	1.60	.11196	.3246	.2079	0.062
Others	.90	1.39888	.5220	.5566	0.55
Total Losses	17.82	11.797	9.968	6.693	4.53

Source: Ministry of Finance, Pakistan. 2010-2011, 2013-2014, 2014-2015. *Impact of War in Afghanistan and Ensuing Terrorism on Pakistan's Economy*. Government of Pakistan. <http://www.finance.gov.pk/>

The relationship between dimensions of the MPI and categories of Pakistan's reported fiscal loss from terrorist attacks from 2007-2014 is presented in Figure 3-3. An economic indicator used to calculate total MPI scores represents almost every category of financial loss due to terrorism reported by the MoF. Out of 8 total MPI dimensions 5 are directly impacted by a category of loss reported by Pakistan's MoF. Because every dimension of the MPI is comprised of multiple variables taken from various resources the impact of the categories of loss reported by the MoF is represented by a percentage. That percentage is a reflection of how many variables are connected to a category of loss reported by the MoF in that dimension of the MPI. The resources used to determine the MPI score were examined to assess which variables are interconnected to categories of loss reported by the MoF.

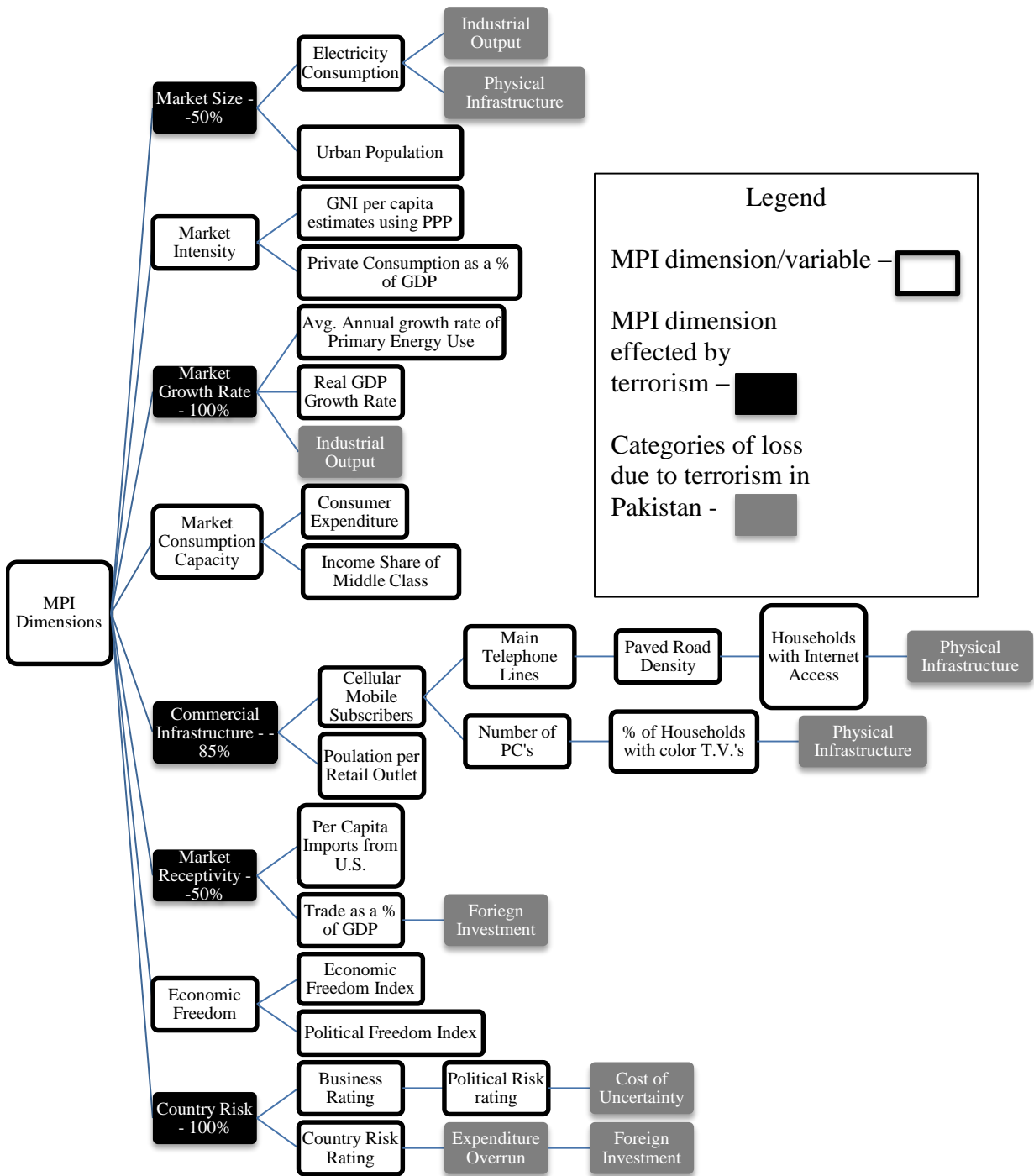


Figure 3-3 Market Potential Index dimensions and related categories of economic loss due to terrorism as reported by the Pakistani MoF

ANALYTICAL METHODS, LIMITATIONS, DELIMITATIONS

Description of Analytical Methods

Linear regression was selected as the analytical method used to explore the relationship between the estimated fiscal loss to Pakistan's economy as a result of terrorism and the impact that fiscal loss had on Pakistan's MPI scores from 2007-2014. Linear regression "is a statistical method that allows us to summarize and study the relationship between two continuous (quantitative) variables" (Penn State, Eberly College of Science 2016). The predictor/independent variable was the total fiscal loss reported by the Pakistan MoF related to domestic terrorism between 2007-2014. The response/dependent variable is the MPI scores of Pakistan during that same time frame. After fitting a linear regression line to the data, the strength of that relationship was quantified by evaluating the Pearson's correlation coefficient. It is the strength and trend of that relationship that may support the thesis statement and will hopefully allow the rejection of the null hypothesis.

If the null hypothesis is not rejected then further research should be conducted to explore variables that were not considered and may have affected the outcome of the results. If it is rejected, then the results would reinforce the claim that Pakistan's CT policies implemented in 2014 have helped generate their economic recovery. In this study, if the thesis is correct, there may be sufficient evidence to warrant further investigation into the reasons Pakistan has been able to regain their economic potential and improve security simultaneously. Any further research conducted may make use of different research methods other than what has been used to conduct this study. A different method of research might provide another perspective on this topic, which has value not only to the government of Pakistan but also other governing bodies all over the world.

The Limitations of the Study

The first limitation encountered in this study stems from the reliability of reports disseminated by Pakistan's MoF. Any report produced by a government agency is subject to political bias and internal agendas. It should be noted that the Pakistani MoF has only reported financial loss from terrorism as a result of the war in Afghanistan. Because Pakistan receives compensation in the form of financial aid from the United States as a result of the war in Afghanistan, it would be to their benefit to report greater amounts of financial loss than actually occurred. With the above limitations noted, The Pakistani Ministry of Finance is still the most reliable source of reporting on this topic. Future studies on this topic may note the same government bias. It should also be noted that Pakistan's MoF did not report the fiscal loss from terrorism by categories during the 2007-2009-time period, only by total loss. For those years it was necessary to assume the categories of loss were the same as the years of 2010-2014.

The second, most obvious, limitation in this study is that the correlation between the data does not mean causation as a result. The data supporting the argument only indicates coinciding changes within a specified timeframe. This limitation is relevant because Pakistan will serve as a better model for counterterrorism/intelligence community (CT/IC) strategies and economic recovery if support for the apparent relationship between increased security and economic recovery can be shown. Pakistan's security will most likely become more important to international investors as their economy grows. As a result of this increased interest, a greater range of data on this topic from government and academic resources will hopefully be available in the future.

Delimitations of the Study

Other factors inhibiting the growth of the Pakistani economy were not considered in this study. Population growth, changes in government, and regional or international politics, etc., are important for predicting changes in any economy, but were not considered unless they were relevant to the Pakistani internal annual reports. The purpose of this study was to show evidence that a significant relationship exists between Pakistani CT strategies and their recent economic growth. The only years of data utilized to study that relationship were from 2007-2014. This time frame was chosen for this study because no MPI data exists on Pakistan prior to 2007.

CHAPTER IV

RESEARCH FINDINGS

RESULTS

Correlation between CT Policies/Operations, and Economic Recovery in 2014

The method chosen to determine the relationship between the two variables, Pakistan's MPI scores from 2007-2014 and the amount of total economic loss each year as a result of terrorism as reported by the MoF, was Pearson's Correlation Coefficient. Results showed a weak negative correlation ($r = -0.223332$) providing evidence that a relationship between the variables exists but is not strong. The relationship is negative because as the amount of fiscal loss due to terrorism reported by the MoF changes, it may affect Pakistan's MPI scores inversely. The hope for this study was to provide evidence of that inverse relationship. The significance level (Alpha) was 0.05, meaning there was a 95% confidence rating this analysis would correctly reject the null hypothesis. However the p-value was 0.6302, which means there is a high probability that the results are statistically insignificant. As a result of this finding the null hypothesis cannot be rejected with confidence. There is no conclusive evidence that a direct relationship exists between the two variables. Table 4-1 presents the scale used to determine the strength of the relationship. Table 4-2 lists the actual data used for calculations. Figure 4-3 presents the linear regression data.

00-.19 – very weak
 .20-.39 – weak
 .40-.59 – moderate
 .60-.79 – strong
 .80-1.0 – very strong

Figure 4-1 Scale used to determine the strength of the relationship between the variables

	2007	2008	2009	2010	2011	2012	2013	2014
Reported Total Loss (in US billions)	4.67	6.94	9.18	13.56	23.77	11.98	9.97	6.63
MPI Score	20	24	20	23	24	NDA	24	66

Figure 4-2 Market Potential Index of Pakistan and estimated total fiscal loss from terrorism between 2007-2014. *NDA – No Data Available

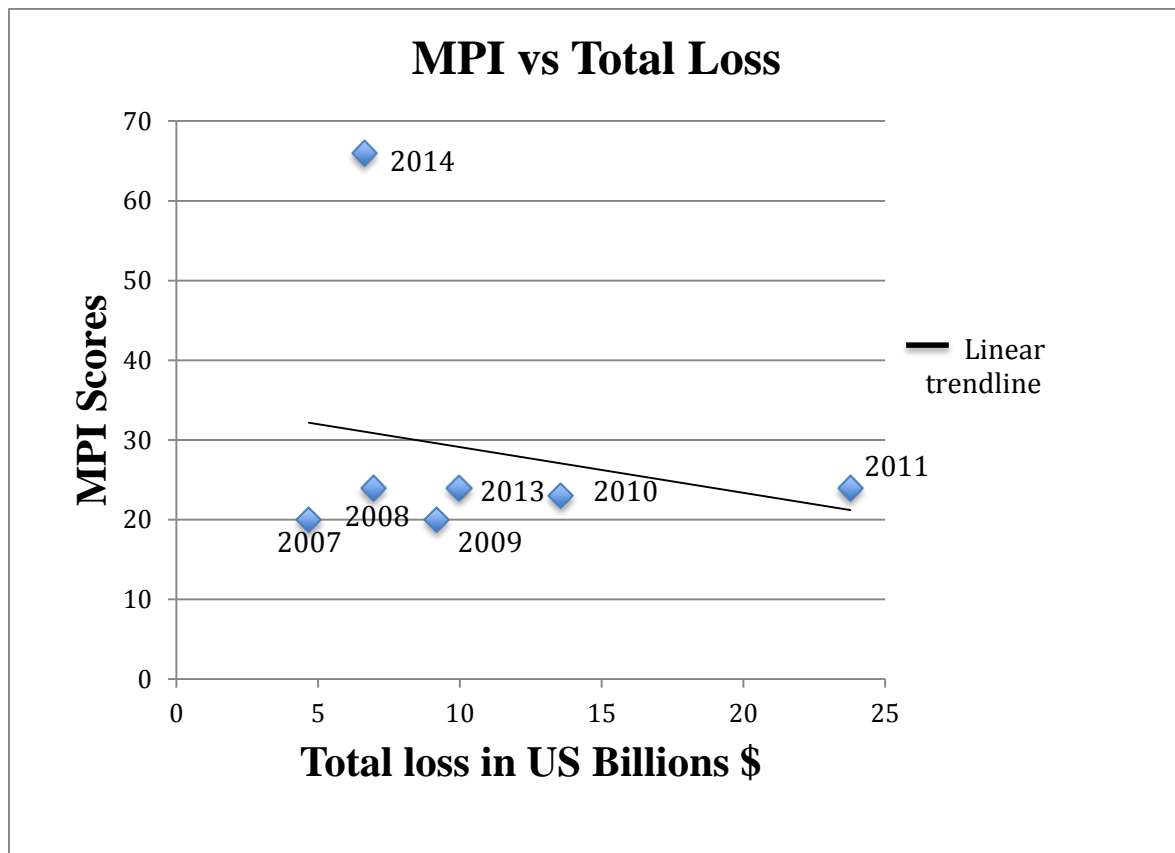


Figure 4-3 Linear Regression data, MPI Scores vs. Total Annual Loss Due to Terrorism

Relevance of the Results

Unfortunately, the null hypothesis cannot be confidently rejected by this study. The reduction in the number of terrorist acts in Pakistan since 2014 may have stimulated some level of economic growth, but the methods used were not able to validate that relationship. As more data becomes available, the effect of Pakistan's CT reforms on their economy may become more visible and future studies utilizing the same methods and variables may have greater significance. For instance, the team at globalEDGE recently released the 2015-2016 market potential index scores for the countries they observe. Pakistan received a score of 60 in 2015 and a 62 in 2016. Those scores are slightly lower than the score they received in 2014, 66, but still show continued confidence in Pakistan's economic potential. Especially since, before 2014, Pakistan never received a score above 24.

Future studies on this topic may observe a more relevant and direct effect of the CT strategies implemented by Pakistan during 2014. Because the MoF has not released data on their fiscal losses from terrorism during the 2015-2016 timeframe, the latest MPI data on Pakistan could not be utilized in the calculations for this study. As Pakistan continues evolve their CT policies, and they become more effective, the variables analyzed will hopefully become more significant. One day it may be possible to understand the total economic gains achieved through security reform in Pakistan over both short-term and long-term timetables. The methods used in this research can be easily applied to the MPI scores and records of economic loss of different countries where greater ranges of data are available. The conclusions and recommendations of the next chapter have been made, despite the findings of this study, because history tells us that security is necessary for any nation to prosper economically.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

Introduction

As Americans have learned since 9/11, intelligence based operations are critical for effective CT operations which demand little to zero civilian casualties, preemptive strikes when possible, an assertive public relation's campaign, and a subject matter expert level of understanding about the enemies' tactics, motive, structure, and culture. Cooperation between the intelligence agencies of Pakistan and Afghanistan will most likely have the greatest effect on CT operations. Militants may be able to escape capture indefinitely if they continue to evade by crossing the Afghanistan-Pakistan border. Cooperation between intelligence officers and local authorities is critical for piecing together information such as phone numbers, family backgrounds, or political connections (Byman 2008). Pakistan must also continue with serious peace talks between themselves and India. No intelligence agency, even the ISI, is able carry out the duties required to combat a domestic counterterrorism effort, and focus on the unstable relationship between their nuclear capable neighbors. As Pakistan moves forward, after American troops leave Afghanistan, America is best suited to serve Pakistan as a friend, trade partner, and advisor. The United States risks pushing away other countries that should be more actively involved in Pakistan's economic and political growth by becoming too involved in Pakistan's affairs.

INCREASING DOMESTIC SECURITY

The Importance of Intelligence Based Operations in Counterterrorism

As Pakistan continues to further their commitment of ridding all militant organizations from inside their borders, they will have to change not only their stance on Islamic militant groups but adapt a counterterrorism strategy that their intelligence community, primarily the ISI, may have difficulty adjusting to. Many members of the ISI, law enforcement, and the military have been accused of being sympathetic to certain terrorist organizations because they may share an ethnic or tribal background with militants. It is rumored that the Pashtun Taliban received years of support from the ISI because many of their intelligence officers are also Pashtuns. Hopefully as the international community embraces Pakistan's efforts at democratization and economic stability, the ISI will see it is in their best interest to align themselves with the government and not Islamic militants.

In a report prepared by the American Joint Chiefs of Staff, counterterrorism Intelligence was said to be similar to battlefield intelligence in that law enforcement or military leaders must rely on accurate intelligence to “anticipate the battle, visualize and understand the full spectrum of the operational environment, and influence the outcome of operations” (Joint Chiefs of Staff 2012). Accurate and timely intelligence is just as important to CT operations as it is to conventional military operations. It is the gathering and disseminating of intelligence that is different between the two. CT operations require sharing that intelligence with local law enforcement and sometimes the general public. Good CT strategies rely on the public to report terrorism related activities and everyone is responsible for gathering that information (Murphy 2014). The ISI possesses inherent qualities, with regard to those two processes, that no other intelligence agency in Pakistan does.

A new intelligence strategy must begin in Pakistan with absolute disregard for previous relationship's the government has held with militant organizations. When the ISI, military, law enforcement, and governing political parties have finally drawn a definitive line between themselves and terrorists, a more fluid and cooperative intelligence strategy will have room to evolve. The intelligence reforms undertaken by the United States since 9/11 have greatly improved the way information passes from collectors on the street to analysts in the IC. Much of that information is then disseminated back down to the police officers, military personnel, or case officers on the street (Eggers, Steinberg and Graham 2003). Integrating the ISI into a national counterterrorism strategy that includes public support will not be easy or quick. As Pakistan continues to build international alliances and improve their economic standing, attitudes and agendas across the nation are sure to change.

As Pakistan's CT strategy continues to develop they will also make better use of electronic intelligence gathering resources and their ability to predict possible terrorist attacks via strategic intelligence. However, strategic intelligence reports must often be investigated or corroborated with forms of tactical intelligence, including human intelligence (HUMINT), direct observation, or imagery intelligence. Direct observation and HUMINT require well-trained intelligence officers who can "think on their feet and identify the simplest of cultural patterns and behavioral modifications of those who work, play, and live within their assigned patrol areas" (Hughbank 2010). Intelligence based CT operations improve the effectiveness of CT strategies, and the accuracy of intelligence based operations can hurt terrorist organizations psychologically more so than conventional military operations.

The Inter-Services Intelligence Agency: Pakistan's Greatest Security Resource

If Pakistan is to continue increasing security, reducing domestic terrorism, and reaping the benefits of both, they must make use of the intelligence resources they have available to spearhead their counterintelligence effort. Perhaps their greatest asset is the inter-service intelligence agency (ISI). The ISI has a questionable history in their dealings with militant groups such as the Afghan Mujahedeen. However, because they have extensive experience training, working with, and funding these types of groups they are clearly qualified to lead the CT effort in Pakistan. If Pakistan wants to continue increased security and economic gains, the government needs to prioritize their security assets and ensure their intelligence community is being utilized in a manner that fits their abilities.

Despite the ISI's history of questionable behavior, they are most certainly capable of playing a role in domestic counterterrorism similar to the FBI in America. By matching aggressive counterterrorism strategies with continued intelligence reform, Pakistan may see substantial increases in domestic security the same way post 9/11 intelligence reforms made an apparent impact in America. However, persuading the ISI to curtail their agenda and focus on Pakistan's national security may be much easier said than done. Unfortunately, since the founding of the ISI they have been repeatedly redirected to protect and advance individual political agendas instead of gathering intelligence necessary for national security. As a result, they have become a corrupt and overly autonomous organization that the Pakistani government has struggled to control.

In Sean Winchell's article *Pakistan's ISI: The Invisible Government*, he describes the ISI as the most influential political force in Pakistan with regards to the domestic and international agenda. He explains the complicated history of the ISI, which began after Pakistan lost the first Indo-Pakistani War. The Intelligence Bureau, the only Pakistani intelligence service at that time, performed so poorly the government demanded the creation of a new intelligence agency. The ISI was developed from members of all three branches of service and trained by the CIA and the French intelligence service, the SDECE. It was modeled after Iran's intelligence agency, the SAVAK, and initially domestic intelligence collection was not its priority (Winchell 2003). The original ISI mission was to collect and coordinate military and nonmilitary intelligence between the Army, Navy, and the Air Force with a focus on India. Then in 1958 the Army Chief of Staff, General Ayub Khan, overthrew the government and tasked the ISI with collecting intelligence on his political rivals. Khan also created a covert division of the ISI to assist Islamic militants in Northeast India and the Sikh Home Rule Movement in the 1960's (Winchell 2003).

Khan's adjustment to the ISI's mission statement would set precedence for its misuse for political gain and supporting militant groups whose agenda's aligned with Pakistan's regional goals that would continue for decades. During the 1960's the ISI focused mainly on domestic intelligence and counterintelligence, and it warned social organizations, such as student groups, trade organizations, unions, and even Islamic clerics not to become involved in the political arena. Anyone who might have political influence in Pakistan was kept under tight surveillance (Winchell 2003).

General Khan expanded the ISI's powers even further when he ordered the ISI to monitor East Pakistani politicians because he was suspicious of Bengali officers in the Intelligence Bureau's Dakha Branch in East Pakistan (Winchell 2003). This was the first time the ISI was tasked with spying on other intelligence agencies. The increase of freedom and power Khan granted the ISI would be very difficult for future government officials to reign in. During the 1946 election the ISI kept General Khan apprised of the political mood and monitored his opponents running for office. Despite Khan's efforts Fatima Jinnah won the election. In 1965, the ISI assumed intelligence collection and analysis duties during the Indo-Pakistani War in Kashmir, but after years of collecting intelligence on politicians and civilians they had lost the ability to address the Army's needs for timely military intelligence. Their military intelligence skills were so degraded they actually lost an entire division of Indian tanks (Winchell 2003). Throughout the remainder of the 1960's and the 1970's the ISI worked with the CIA to provide aid and support to the Khalistan movement in Punjab and they collaborated to disrupt Indian Prime Minister Indira Gandhi's support to the Soviet Union. That program ended with Gandhi's death in 1984 (Winchell 2003).

From 1970 until 1971, East and West Pakistan fought a brutal civil war and the ISI assassinated several prominent Bengali politicians in an attempt to crush the Bengali resistance movement (Winchell 2003). President Yahya Khan, the president at that time, authorized the assassinations and in turn set the ISI on a path that increased their autonomy and made them even more difficult to control. West Pakistan lost the conflict after India intervened on behalf of East Pakistan, which led to the formation of Bangladesh, or the Bengali state (Winchell 2003). As a result, Yahya Khan was forced to step down and Zulfikar Ali Bhutto was elected as President of Pakistan (Winchell 2003).

President Bhutto tried to control the ISI by appointing Lieutenant General Gulam Gilani Khan as the Director-General, one of his closest allies, and promoted Lieutenant General Zia ul-Haq to the position of Army Chief of Staff (Winchell 2003). In 1972 Bhutto faced a revolt by Baluchistani nationals and in response he increased the ISI's power once again by ordering them to conduct domestic intelligence in that region (Winchell 2003). On July 5, 1977 General Zia ul-Haq used the ISI, whom he had recognized as an invaluable asset, to seize power in a coup and on September 17, 1978 Zia declared himself President.

Zia was an Islamic fundamentalist who believed the only way Pakistan could become a major regional power was to become an Islamic state and one of his first acts as president was an attempt to Islamize the Pakistani military (Winchell 2003). As stated earlier, he is also largely responsible for the increase of radical Islamic madrassas throughout Pakistan that spawned militant organizations such as the Taliban, and with his emphasis on the fundamental Deobandi-Sunni tradition, the tension between Sunnis and Shias in Pakistan erupted into violence throughout the 1980's (Murphy 2014). As stability in Pakistan decreased, Zia continued to use the ISI to collect intelligence on his political and religious rivals in an effort to retain power (Winchell 2003).

In 1974, India conducted its first nuclear tests and Pakistan became obsessed with gaining nuclear weapons as well. Bhutto had created a division of the ISI whose mission was to covertly procure nuclear materials and missile technology from China and North Korea. . Proceeds from heroin and opium smuggling by the ISI were deferred to this division as a source of "off the books" funding (Winchell 2003).

Then in 1979 the Soviet Union invaded Afghanistan and the CIA went to the ISI for help. Through the ISI, the CIA smuggled \$3 billion dollars of equipment to Afghan freedom fighters, or mujahedeen, many of whom were students of Saudi Arabian Wahhabi madrassas and would later form a group known as the Taliban (Winchell 2003). During the course of the Afghan-Soviet War a relationship developed between the ISI and the Taliban that would haunt American's years later. However, it is that same relationship with Taliban militants, as well as militants from other organizations, which qualifies the ISI to lead South Asia's war against terrorism.

Between 1983 and 1997, the ISI trained approximately 83,000 Afghan fighters with American money (Winchell 2003). The Afghan Mujahedeen would prove successful and push Russia from Afghanistan. The ISI and the Taliban developed a relationship over the course of the Soviet occupation that proved advantageous for the ISI regionally, but disadvantageous internationally. In 1996, after pushing the Soviets out of Afghanistan and then subsequently fighting against other internal factions for two years, the Taliban gained control of approximately 95% of the country. Since that time, the ISI has been accused of supporting both the Taliban and al-Qaeda (Winchell 2003).

During that same time period the ISI was also assisting Kashmiri separatists in the Kashmir part of Pakistan, which is a region that is still heavily contested today. Since India and Pakistan separated in 1947, Pakistan has wrestled with control of Muslim-dominated Jammu and Kashmir with India (Winchell 2003). The ISI uses a myriad of Islamic militants living in Kashmir to resist India's occupation in the region to include the Allah Tigers, Harkut ul-Ansar, Hizb-ub-Mujahideen, al-Umar Mujahideen, the Jamaat Hurriyat Conference, Hizb-ul-Islam, and the Muslim Mujahideen (Winchell 2003).

Director-General Hamid Gul was responsible for ISI's campaign to drive India from the Kashmir. In 1989, after the Soviet withdrawal from Afghanistan, the ISI began supporting Islamic separatist organizations such as the Jamaat E-Islami and used money from their Afghani drug smuggling operation to finance the ISI-backed terrorist incursions in Kashmir and Punjab (Winchell 2003). The Indian military has stated that prior to 9/11 the ISI funded and supervised, in cooperation with the Harkat-ul-Ansar who is known for their ties with al-Qaeda, approximately thirty training camps in Pakistan Occupied Kashmir and Pakistan proper that turned out combat ready terrorists to support the resistance movement against India (Winchell 2003).

According to Eamon Murphy in his book *The Making of Terrorism in Pakistan*, it was the struggle in Kashmir that set the stage for Wahhabi influence in Kashmir Valley which spurred an ethnic cleansing in that region and a mass exodus of religious minorities (Murphy 2014). To add even more pressure on India, the ISI worked with the Bangladesh intelligence service and utilized Bangladeshi insurgents in India's northeastern region of the province of Assam and are rumored to have paid militants from Bahrain, Afghanistan, Chechnya, Iran, Saudi Arabia, and several other Middle Eastern nations to attack Indian interests as well (Winchell 2003). It was at this juncture in the ISI's history, they became proficient in using militant groups to execute their proxy war against India on multiple fronts. Besides the obvious ethical concerns, what the ISI did in the 80's and 90's was altogether impressive, although unsettling. By influencing and supporting small groups of terrorists the ISI was able to apply effective pressure to India, a country whose conventional military prowess clearly outmatched Pakistan.

It was in 1990 that Prime Minister Benazir Bhutto ordered a committee to review the ISI's activities. This committee concluded the ISI "had the makings of a de facto government" (Winchell 2003) and Bhutto responded by attempting to remove some of their power and regain control. She appointed Major General Shamsur Rahman Kallue to the post of Director-General of the ISI. Unfortunately, the move upset the then-Army Chief of Staff General Aslam Beg who convinced the President to dismiss Bhutto from her office in August of 1990 (Winchell 2003)

During Bhutto's second term as Prime Minister she once again tried to regulate ISI's power by transferring the responsibility for clandestine operations inside Afghanistan to the Ministry of the Interior. It is rumored, that the ISI had her only surviving brother murdered outside of his house in Karachi in 1996. The ISI then began a smear campaign, accused Bhutto and her husband of the murder, and Bhutto was once again relieved of her duties in November of that year. It's worth noting, and obviously significant, that the ISI has been accused of poisoning Bhutto's other brother at the French Riviera years earlier (Winchell 2003).

Prime Minister Nawaz Sharif, who served a second term from 1997-1999, also tried, in vain, to regain control of the ISI. Sharif appointed Lieutenant General Ziauddin as Director-General of the ISI, even though the Army Chief of Staff, General Pervez Musharraf, had objected to his appointment. Musharraf countered Sharif's appointment by naming Lieutenant General Muhammad Aziz, the ISI's Deputy Director-General, as Director-General of Military Intelligence. Then, to gain more control over the ISI itself, Musharraf placed the Joint Intelligence North (JIN), the ISI division responsible for conducting clandestine intelligence activities, under Aziz's control (Winchell 2003).

In 1999, the Clinton administration met with Ziauddin in Washington D.C. where they discussed Musharraf's loyalty to Sharif and extraditing bin Laden to the United States (Winchell 2003). When he returned to Pakistan Ziauddin traveled to Afghanistan, at Sharif's request, and asked Taliban leader Mullah Muhammad Omar to stop supporting other Islamic fundamentalists. Ziauddin also asked Omar to turn over bin Laden to the United States. Musharraf countered Sharif's, and the United States agenda, and sent Aziz to Kandahar to inform Mullah Omar he should disregard everything Ziauddin had said, including America's request to give up bin Laden (Winchell 2003).

The Pakistani military has always been difficult to control for the government and because the ISI is a military intelligence organization they are even further removed from the governments' control. Just prior to 9/11 the ISI reached new heights of interdependence and by supporting the Taliban against Sharif's foreign policy they were hurting not only Pakistan's regional interests but also their international image. It seems that Pakistani Government officials, and the ISI, have always lacked the ability to perceive their actions as other nations do, especially foreign investors.

On October 19, 1999 General Musharraf overthrew Sharif, who had become more of a dictator than democratic leader. Musharraf took control of the government proclaiming himself the Chief Executive (Winchell 2003). Musharraf then dismissed ISI Director-General Ziauddin, and replaced him with Lt.-General Ahmed Mahmud (Winchell 2003). Mahmud, like Musharraf, was an Islamic conservative whose political agenda aligned with Musharraf's.

Then, on 11 September 2001, the relationship between the ISI, Afghanistan, and the United States changed forever. General Mahmud was in Washington when the attacks occurred, and he immediately pledged Pakistan's, and the ISI's, support in their pursuit of those responsible (Winchell 2003). The ISI had never intended to hand over bin Laden to the United States prior to 9/11. As a matter of fact, on 11 August 2001 General Musharraf was actually quoted in an interview by a Russian newspaper as saying "the Taliban...controls about 95% of the territory [Afghanistan] and cannot be wished away... We feel that the international community should engage the Taliban rather than isolating them and ostracizing them" (Winchell 2003). Despite Mahmud's promises after 9/11, at least five ISI intelligence officers are believed to have assisted the Taliban in preparing their defenses against an imminent American attack (Winchell 2003).

President Musharraf did support the American agenda in Afghanistan after 9/11. He was clearly aware of the how 9/11 would change international relations and chose to support the Western world in dismantling al-Qaeda and the Taliban in Afghanistan. In October 2001 Musharraf sent Mahmud to Kandahar to order Mullah Omar to hand bin Laden over to the United States. Mahmud did exactly what Musharraf had done to Sharif. He advised Mullah Omar to not hand over bin Laden. Soon after, Musharraf learned of Mahmud's betrayal attempted once again to bring the ISI under better authority and replaced Mahmud with Lieutenant-General Ehsan ul-Haq (Winchell 2003). However, new leadership would not be enough to bring the ISI under control.

Following 9/11 and the invasion of Afghanistan, the United States came to rely heavily on intelligence provided by the ISI. The ISI is believed to have possessed vast amounts of intelligence on bin Laden, al-Qaeda, and the Taliban. In exchange for American electronic intelligence and financial compensation, the ISI has provided the United States with access to their intelligence resources and assistance detaining al-Qaeda operatives as they cross into Pakistan. Such notable captures by the ISI include al-Qaeda's operations chief, Abu Zubaydah (Winchell 2003). The same reasons the international community remains suspicious of the ISI are why they may be Pakistan's greatest asset in their war against terrorism. As Pakistan continues to grow economically, and builds on opportunities to cooperate with Afghanistan and India to repress militant organizations, the ISI will need to conform to the regional agenda or find themselves as outsiders in their own home.

Continued Intelligence Reform and Cooperating with Afghanistan

What's been even more remarkable than the reported success of Operation Zarb-e-Azb in 2014 is the cooperation between the Afghanistan National Directory of Security (NDS) and Pakistan's Inter-Services Intelligence (ISI) since that operation began. Rumors have circulated since the birth of the TTP that their funding has come from Afghan and Indian intelligence agencies (Farooq 2014). As a matter of fact, in October 2013 American Special Forces interrupted a meeting between several NDS agents and Latif Mehsud, who has lived in Afghanistan since 2010 and previously managed the TTP as the second in command (Farooq 2014). Despite a long history of mistrust, it's possible the threat of U.S. withdrawal from Afghanistan acted as an accelerant for cooperation between Afghanistan and Pakistan.

A memorandum was signed in May of 2015 that would allow NDS and ISI to cooperate on CT operations and investigations, share intelligence, allow the ISI to help train and equip the NDS (Ramachandran 2015). President Mamnoon Hussain of Pakistan and President Ashraf Ghani of Afghanistan had come to an unprecedented agreement to cooperate on the issue of terrorism. Unfortunately, there are still people on both sides who oppose that cooperation (Ramachandran 2015). In December of 2015, the head of NDS, Rahmatullah Nabil, quit his post because of Ghani's decision to work with Pakistan (BBC News 2015). There are many Afghans, such as the Tajiks and anti-Taliban Pashtuns who have taken the blunt of Taliban violence, that have voiced their disagreement with trusting the ISI (Ramachandran 2015). While an air of uncertainty may remain between these two countries the collaboration between their intelligence communities could be the foundation of increased stability, as well as prosperity, for both sides.

Afghanistan and Pakistan have different motivations for working together on intelligence operations. Pakistan hopes that Afghanistan will shut down TTP bases operating on their side of the border and would like to reduce India's influence in Afghanistan. Pakistan still believes Afghanistan plays a fundamental role in their regional security by giving them "strategic depth" against India. President Ghani hopes the ISI will assist Afghanistan by persuading the Taliban to the negotiating table hoping for peace after U.S. withdrawal (Ramachandran 2015). If the intelligence communities of Afghanistan and Pakistan can continue to work together, the next few years may be a turning point for the war on terrorism in South Asia.

As of February of 2016, the head of NDS Masoud Andarabi and the ISI Director General Lt. General Rizwan Akhtar were trying once again to engage in dialogue that would build mutual trust for the sharing of intelligence and cooperation on counterterrorism strategies. Talks between the two intelligence agencies fell apart in 2015 because of accusations made by politicians on both sides. Most recently, Pakistan presented evidence that Pakistani militants are using Afghan soil to attack Pakistan. Specifically, Islamabad believes a recent terrorist attack on Bacha Khan University in the Northwestern town of Charsada was planned and executed from the eastern Afghan border region by the TTP (Gul 2016). The Afghans have continually denied that militants who are attacking Pakistan are using Afghanistan as a safe haven.

Also in 2016, high-level members of the Afghan military traveled to the Pakistani Army headquarters to discuss managing their shared border and other mutual issues of national security (Gul 2016). Since the ISI falls under the Pakistani Army, dialogue between military officials should help to influence the cooperation between the Afghan-Pakistan intelligence agencies. That cooperation will undoubtedly continue to reduce acts of terrorism and improve the security of the region. Hopefully, the ISI and NDS will find themselves working together more in the future which may foster an improvement in the relationship between both countries. After years of mistrust, building confidence in each other will be difficult for Afghanistan and Pakistan. However, it will also be critical for the security and stability of all South Asia. If Pakistan has been able to increase their economic potential by reducing the ability of terrorists to strike within its borders, then surely Afghanistan could benefit in the same way by increasing their own domestic security.

Peace with India

If Pakistan can build ties with Afghanistan, then there may be hope for improving the relationship between India and Pakistan. Pakistan's security strategy has always focused on keeping India from gaining control of Jammu, Kashmir, Punjab, Gilgit, and Baltistan (Macdonald 2016). Those regions have been heavily contested since the two countries became independent in 1947. Since the 1980's Pakistan has provided support to militants in an effort to wrestle control in those areas from India. India is guilty of the same by supporting militant groups that share their regional goals. Because Pakistan has put so much effort in fighting a proxy war with India and competing with them for nuclear arms they have not paid adequate attention to their own domestic security concerns. However, with militants in the contested region attacking both sides, finding a resolution will be difficult. Continued intelligence reform and aggressive CT strategies that reduce acts of terrorism would allow both Pakistani and Indian politicians to engage in positive dialogue instead of making accusations. It might also be possible that a political relationship between the two countries might one day evolve into strong economic ties as well.

An attack against an Indian Air Force Base in Pathankot as recent as January 2016 explains why there is so much heated dialogue between both nations. Myra Macdonald explains the nature of the India-Pakistan conflict in a very insightful article entitled *On India-Pakistan: Hope for the Best, and Prepare for the Worst*. She claims the Indians believe the attack was ordered by the ISI, or was an independent initiative by militant groups who are allowed to operate openly on Pakistani territory. The Pakistani military believes they must stand up to what they interpret as Indian hegemony and continue to assert their claim on Kashmir (Macdonald 2016).

Since both countries began nuclear tests in 1998 there has been no sign of reducing tension between the two. Pakistan has used their nuclear stockpile to deter Indian retaliation while they continue to support militants, through the ISI, who repeatedly attack Indian interests along their border (Macdonald 2016). The autonomy of the ISI supposedly allows some of these attacks to occur without the approval of the Pakistani government. Gaining control of the ISI is critical not only for peace between Afghanistan, the United States, and Pakistan, but with India as well. Unfortunately, as stated before, Pakistan has a history of being overly concerned with achieving regional objectives, even if it severely damaged their international image.

The Kargil War of 1998-1999 is an example of the strategic blindness that Pakistan has long since suffered from which continues to impede the progress of Indian-Pakistani relations. That winter Pakistan moved troops across the Line of Control (LOC), which divides Jammu and Kashmir, into mountain positions on the Indian side above the towns on Dras and Kargil (Macdonald 2016). From Pakistan's point of view the move was appropriate since India moved into several passes along the Siachen glacier in 1984, which lies in the high mountains just beyond the end of the LoC (Macdonald 2016). Unfortunately, Pakistan's timing could not have been worse since they had just concluded a round of nuclear tests. Bad planning and poor timing made the Kargil operation look like an attempt to sabotage a peace initiative that had just been proposed by Indian Prime Minister Atal Behari Vajpayee (Macdonald 2016). Once again, Pakistan had proven they were their own worst enemy and India retaliated with military action pushing Pakistan back to their side of the LoC.

The facilitation of jihadi groups in Kashmir would prove especially detrimental to Pakistan after 9/11 because militants from these same groups would later turn against the government who sponsored them (Murphy 2014). So, why would any nation conduct such a brazen act in the midst of negotiations for a peace treaty? Pakistan's history of political instability and competing agendas between the Army and the government has always stood in the way of peace with India. However, as both nations prepare to become key players in the international market, finding common ground is in both of their interests.

In May of 2014, Prime Minister Sharif, in an act of sincere diplomacy, attended the inauguration of Indian Prime Minister Narendra Modi where he promised to reignite the peace talks initiated with Vajpayee in Lahore in 1999. Then, in July 2015, several gunmen attacked a police station in the Gurdaspur district of Indian Punjab and attempted to blow up a passenger train (Macdonald 2016). India believes the attackers were members of the ISI supported LeT. Obviously, peace talks were railroaded once again, and then on Christmas Day 2015, Modi made a short stop in Lahore to meet Sharif. Modi was the first Indian prime minister to visit Pakistan since Vajpayee. Unfortunately, the plans were already in place for the 2016 attacks in Pathankot (Macdonald 2016).

Peace talks between India and Pakistan are an absolute necessity. However, no progress will ever be made so long as Pakistan continues to provide covert support to militants who attack India, even if it happens discreetly. At times, attempts at peace talks have been less effective than threats of retaliation in reducing violence between India and Pakistan. While the international community condemned India's use of force in Kashmir, it did keep Pakistan from escalating the situation to an all-out war.

CONCLUDING THOUGHTS

Many people in the international community are well aware of Pakistan's economic potential and there is evidence, such as China's recent investments, of renewed confidence in Pakistan's economic stability over the last few years. In February of 2016 the World Bank Group President Jim Yong Kim traveled to Pakistan to discuss the progress he believes Pakistan has made over the previous three years. The World Bank Group have, by themselves, invested over \$5.6 billion in Pakistan in lending projects, with \$1.2 billion of that in 2015 alone (The World Bank 2016). In President Kim's words "Now is the moment for Pakistan to step up to a higher level of growth and opportunity for all its people" (The World Bank 2016). The creation of new jobs, accelerating energy reforms, improving health and education at the community level, and more effective anti-poverty measures are all within Pakistan's reach (The World Bank 2016). But these reforms will continue to elude the Pakistani government if security is not a priority.

If security is needed for prosperity, the way Sir David Omand imagines in his book *Securing the State*, then Pakistan will most certainly have to continue driving terrorists from its borders, and make peace with its neighbors, to achieve its economic potential. The aim of this study was to support an argument that security is necessary for prosperity and vice versa, in the way that Omand imagines it. The hope is for the findings of this thesis to cultivate further discussion about the relevance of Pakistan's security measures since 2014 and build momentum for continued policy development. The results conclude that a weak negative relationship exists between the security and economic potential of Pakistan. With data to support the argument, security and prosperity appear to be connected and Pakistan must continue driving forward with both in order to improve the quality of life for its citizens.

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BIOGRAPHY

My name is Austen Hubbard and I am graduate student at Angelo State University. I completed my undergraduate degree in Clinical Health Science from The George Washington University in May of 2014. I spent 11 years of my life in the U.S. Navy as a corpsman where my passion for serving the greater good, and my interest in national security, grew into a lifelong ambition. The inspiration for this thesis began with a single conversation I had with a linguist during my naval career.